

*The Honorable Ricardo S. Martinez*  
*Hearing: December 21, 2007*  
*Without Oral Argument*

**UNITED STATES DISTRICT COURT  
WESTERN DISTRICT OF WASHINGTON  
AT SEATTLE**

CANON U.S.A., INC., EASTMAN KODAK  
COMPANY, PANASONIC CORPORATION  
OF NORTH AMERICA, RICOH AMERICAS  
CORPORATION, and KYOCERA MITA  
AMERICA, INC.

Plaintiffs,

vs.

SCREENTONE SYSTEMS, CORPORATION,  
ACACIA PATENT ACQUISITION  
CORPORATION, ACACIA RESEARCH  
CORPORATION, and PAUL S. SNYPP,

Defendants.

Cause No: C07-1544 RSM

DEFENDANTS' MOTION TO STAY OR  
TRANSFER PENDING RESOLUTION OF  
ISSUES BY THE EASTERN DISTRICT  
OF TEXAS, THE FIRST-FILED COURT,  
OR, IN THE ALTERNATIVE, MOTION  
TO DISMISS, AND BRIEF IN SUPPORT

**JURY TRIAL DEMANDED**

**I. Nature and Stage of the Proceedings**

Canon U.S.A., Inc., Eastman Kodak Company, Panasonic Corporation of North America, Ricoh Americas Corporation, and Kyocera Mita America, Inc. (sometimes referred to herein as the "Canon Plaintiffs," the "Canon Entities," or the "Texas Defendants") filed the above-captioned declaratory judgment action on October 1, 2007, seeking a declaration of non-infringement, invalidity, and unenforceability of U.S. Patent No. 5,166,809. Prior to filing their answers and counterclaims, Defendants are filing this *Motion to Stay or Transfer Pending Resolution of Issues by the Eastern District of Texas, or, in the Alternative, Motion to Dismiss*.

DEFENDANTS' MOTION TO STAY OR TRANSFER, OR,  
IN THE ALTERNATIVE, MOTION TO DISMISS - 1

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## II. Summary of the Argument

1. The declaratory judgment action brought before this Court by the Canon Plaintiffs is duplicative of a lawsuit filed by Screentone Systems Corporation (“Screentone”) two months earlier in the United States District Court for the Eastern District of Texas (the “Texas Action”). Under the first-to-file rule, which turns on which court first obtains possession of the subject of the dispute, not the parties of the dispute, this case should be stayed or transferred, or in the alternative, dismissed. Staying, transferring, or dismissing this case will further the principles of comity and sound judicial administration on which the first-to-file rule is based, by conserving judicial resources and by avoiding duplicative litigation and inconsistent results.

2. Screentone owns all right, title and interest in and to the ‘809 patent. As such, it is the only necessary plaintiff to the Texas Action. In the present action, the Canon Plaintiffs have named additional parties that they assert are “indispensable.” Having named three defendants in addition to Screentone, they now lay claim to priority under the first-to-file rule. But the first-to-file rule turns on which court first obtains possession of the subject of the dispute, looking only to the sequence of filing events as the relevant metric for determining which court obtained jurisdiction first. The rule applies even if the actions are not identical. And complete identity of parties is not required to substantiate the transfer or dismissal of a second-filed, substantially related action.

## III. Statement of Facts

On August 8, 2007, Screentone Systems Corporation (“Screentone”), one of the defendants herein, filed its original Complaint in the Eastern District of Texas, alleging infringement of U.S. Patent No. 5,166,809 (the “‘809 patent”) by seven different defendants (the “Texas Defendants”).<sup>1</sup> The Texas Defendants each make, sell, and distribute printer and other imaging products which operate to reproduce images by the claimed digital halftoning techniques. The seven Texas Defendants include the five Canon Entities named as Plaintiffs herein.

<sup>1</sup> See Exh. A – Declaration of Edward R. Nelson, III in Support of this Motion (“Nelson Decl.”), at Exh. 1 (Screentone’s original Complaint filed August 8, 2007, in the United States District Court for the Eastern District of Texas, Marshall Division; hereinafter, the “Texas Complaint”).

1 Screentone agreed to give each Texas Defendant a 30-day extension within which to  
 2 answer. On the last possible day (October 1, 2007), and in lieu of answers, the Texas Defendants  
 3 filed three separate motions to dismiss, two of which alternatively requested transfer.<sup>2</sup> The same  
 4 day, the Texas Defendants filed three nearly identical declaratory judgment actions — two in  
 5 Delaware and one in Washington State (the instant action) — seeking declarations of non-  
 6 infringement and invalidity regarding the same '809 patent at issue in the Texas Action. The  
 7 Canon Plaintiffs also seek a declaration of unenforceability.

8 The three motions to dismiss pending in Texas and the three declaratory judgment actions  
 9 pending in Washington and Delaware parrot one another, routinely using the same or  
 10 substantially similar language. These collective filings amount to little more than a misguided,  
 11 but well-orchestrated effort to force the parties' dispute into a procedural quagmire. Telling is  
 12 the fact that the Texas Defendants made no attempt to communicate with Screentone about the  
 13 issues raised in their motions and declaratory judgment actions prior to filing. Any attempt at all  
 14 might have averted this unnecessary waste of the Court's time.

15 The declaratory judgment actions and the Texas motions are erroneously premised on the  
 16 assertion that Screentone lacked standing to sue when it did. But the public record alone proves  
 17 otherwise.<sup>3</sup> Screentone acquired all right, title and interest in and to the '809 patent on June 18,  
 18 2007, and, as patent owner, Screentone indisputably maintained standing to bring the Texas  
 19 Action — a fact that Screentone documented and detailed in papers presently before the Texas  
 20 court.

21 For this reason alone, there is no basis for dismissal of the Texas Action and no basis for  
 22 transfer to Delaware or Washington based on the first-to-file rule. Likewise, there is no reason  
 23 this Court should allow duplicative, parallel litigation to move forward in Washington when a  
 24 sister court in Texas is already considering identical issues.

25 The Texas Defendants argue, additionally, that Screentone did not join all indispensable  
 26 parties in the Texas Action and that joinder of those parties in the subsequently-filed declaratory  
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28 <sup>2</sup> The Canon Entities filed their motion to dismiss the Texas Action (the "Canon Motion") under Fed. R. Civ. P.  
 29 12(b)(1) and/or 12(b)(7), seeking dismissal or, alternatively, transfer of the Texas Action to the Western District of  
 Washington under the first-to-file rule and/or 28 U.S.C. § 1404(a).

30 <sup>3</sup> Nelson Decl., at Exh. 2 (Assignment of '809 patent to Screentone).

judgment actions should somehow permit them to invoke the first-to-file rule to their benefit. This untenable position flows from their erroneous analysis of the patent's chain of title and runs diametrically contrary to established law.

Ultimately, the Canon Entities cannot establish any basis upon which their case should proceed in this Court.<sup>4</sup> Screentone's choice of the Texas forum should not be disturbed, and this Court should stay or transfer the present action, allowing the parties' arguments to play out where the matter was first filed. Moreover, it is well within the Court's discretion to simply dismiss the instant action should the Court deem dismissal the most efficient course.

#### IV. Argument

##### A. **The first-to-file rule promotes judicial economy and avoids duplicative litigation.**

Screentone filed the Texas Action on August 8, 2007. Two months later, the Texas Defendants made themselves Plaintiffs by filing three separate declaratory judgment actions — one in Washington and two in Delaware. The Texas Action is the first-filed action. “The first-filed rule turns on which court first obtains possession of the subject of the dispute, not the parties of the dispute.” *Schering Corp. v. Amgen Inc.*, 969 F. Supp 258, 267 (D. Del. 1997), quoting *Advanta Corp. v. Visa U.S.A., Inc.*, No. 96-7940, 1997 U.S. Dist. LEXIS 2007, at \*6-7 (E.D. Pa. Feb. 19, 1997) (emphasis added); see *S&B Eng’r & Constr., Ltd. v. Alstom Power, Inc.*, No. 3:04-CV-0150-L, 2004 U.S. Dist. LEXIS 21021, at \*6 (N.D. Tex. Oct. 19, 2004) (stating that “the first-to-file rule looks only to the sequence of filing events . . . as the relevant metric for determining which court obtained jurisdiction first”).

And it is well settled that “[i]n all cases of federal concurrent jurisdiction, the court which first had possession of the subject must decide it.” *Crosley Corp. v. Hazeltine Corp.*, 122 F.2d 925, 929 (3d Cir. 1941), quoting *Smith v. M'Iver*, 22 U.S. 532 (1824) (emphasis added); see also *Save Power Ltd. v. Syntek Fin. Corp.*, 121 F.3d 947, 950 (5th Cir. 1997); *Lockheed Martin*

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<sup>4</sup> It bears mention that the Canon Entities requested transfer out of the Eastern District of Texas on the basis of “convenience” under 28 U.S.C. §1404(a). But not a single private or public interest factor favors such a transfer. The Texas Defendants’ motions ignore the well-settled principle that deference must be accorded Plaintiff’s choice of forum (in this case, Screentone’s choice to file in Texas) and otherwise falters in meeting the heavy burden necessary to justify a change of venue.

1 *Corp. v. L-3 Comm. Corp.*, 370 F. Supp. 2d 1349, 1350-51.(N.D. Ga. 2005) (“when parties have  
 2 filed competing or parallel litigation in separate federal courts, the court in which the case was  
 3 first filed should hear the case”). Consequently, the “later-filed action should be stayed pending  
 4 the resolution of an earlier filed action, or transferred to the court in which the earlier-filed action  
 5 is pending.” *Dippold-Harmon Enterprises, Inc. v. Lowe's Companies, Inc.*, 2001 U.S. Dist.  
 6 LEXIS 18547 at \*13-14, Civil Action No. 01-532-GMS (D. Del. 2001).

7 The first-to-file rule “encourages sound judicial administration and promotes comity  
 8 among federal courts of equal rank.” *Filler v. Lernout*, 2002 U.S. Dist. LEXIS 2373 at \*6 (D.  
 9 Del. 2002); *see also Am. Guar. & Liab. Ins. Co. v. United States Fid. & Guar. Co.*, 2006 U.S.  
 10 Dist. LEXIS 88627, 2-3 (W.D. Wash. 2006) (“The first-to-file rule was developed to ‘serve[] the  
 11 purpose of promoting efficiency well and should not be disregarded lightly.”), quoting *Alltrade,*  
 12 *Inc. v. Uniweld Products, Inc.*, 946 F.2d 622, 625 (9th Cir. 1991); *Save Power Ltd.*, 121 F.3d at  
 13 950 (“the principle of comity requires federal district courts ... to exercise care to avoid  
 14 interference with each other’s affairs”).

15 This same rule applies in patent cases. *Genentech, Inc. v. EB Lilly & Col*, 998 F.2d 931,  
 16 937-38 (Fed. Cir. 1993) (holding that Federal Circuit law applies when a question is important to  
 17 national uniformity in patent practice and applying to a patent case “[t]he general rule [that]  
 18 favors the forum of the first-filed action”). Because the Texas Action is the first-filed case, the  
 19 Eastern District of Texas should hear and decide these matters.

20 Ultimately, the decision to transfer or stay the second action is within the discretion of the  
 21 trial court. *Filler*, 2002 U.S. Dist. LEXIS 2373 at \*6. But “invocation of the rule will usually be  
 22 the norm, not the exception, and courts must be presented with exceptional circumstances before  
 23 exercising their discretion to depart from the first-filed rule.” *Id.* (internal citation omitted); *see*  
 24 *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Haydu*, 675 F.2d 1169, 1174 (11th Cir. 1982) (“In  
 25 the absence of compelling circumstances, the court initially seized of a controversy should be the  
 26 one to decide the case.”).

27 **B. This case involves no applicable exception to the first-to-file rule.**

28 The Texas Defendants intentionally created duplicative litigation by filing multiple  
 29 declaratory judgment actions. And in their attempts to escape the Texas Action, they sued  
 30 Acacia Patent Acquisition Corporation (“APAC”), Paul Snypp, and Acacia Research

1 Corporation. These parties were not originally named as Plaintiffs in the Texas Action. Though  
 2 not necessary to the maintenance of the lawsuit, Screentone has requested leave to amend the  
 3 Texas Complaint to add APAC and Snyppe as voluntary co-plaintiffs. Acacia Research  
 4 Corporation is not a proper party to any suit, having nothing to do with the case outside the fact  
 5 that it is the ultimate parent to APAC and Screentone. Acacia Research Corporation does not  
 6 own, and has never owned, any interest whatsoever in the '809 patent.

7 As noted above, “[t]he first-filed rule turns on which court first obtains possession of the  
 8 subject of the dispute, not the parties of the dispute.” *Schering Corp.*, 969 F. Supp at 267. In  
 9 *Schering*, the court “first acquired subject matter jurisdiction over the dispute in December of  
 10 1996” when Schering’s original Complaint for patent infringement was filed. *Id.* As in this  
 11 case, the defendant in *Schering*, Amgen, filed a subsequent declaratory judgment action in  
 12 another district against two parties, Schering and Biogen. *Id.* at 260. Amgen lodged a  
 13 concurrent motion to dismiss in response to Schering’s first-filed Complaint, premised upon the  
 14 failure of Schering to join Biogen as an indispensable party. *Id.* Schering then amended to add  
 15 Biogen as a co-plaintiff. *Id.*

16 Amgen argued that its choice of forum was entitled to deference as, effectively, the first  
 17 forum to acquire jurisdiction over all necessary parties.<sup>5</sup> *Id.* at 265-67. The *Schering* court  
 18 rejected Amgen’s argument, holding that “the Delaware action is considered first-filed,  
 19 regardless of the addition of a new party” by Schering, which was done after, and in response to,  
 20 Amgen’s second-filed declaratory judgment action. *Id.* at 267.

21 Under the first-to-file rule, the Washington and Delaware courts should defer to the  
 22 Texas court. *See Save Power Ltd.*, 121 F.3d at 950 (acknowledging the well-settled “legal  
 23 proposition [that] the second court should defer”). There is simply no basis for this Court to  
 24 conclude that it should allow the Washington action to go forward. Rather, “where duplicative  
 25 issues and parties exist in two cases the court with the first case should resolve the issues  
 26 between the parties ....” *Id.*

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 29 <sup>5</sup> In *Schering*, there was a standing issue related to whether Schering, as the purported exclusive licensee, could  
 30 bring suit alone without joinder of the patent owner, Biogen. This is not an issue here, where Screentone is the  
 patent owner with an indisputable right to bring its action in Texas. There is no exclusive licensee.



1        There are some narrow exceptions to the first-to-file rule. Certain equitable  
 2 considerations permit courts to exercise their discretion and decline to apply it. Circumstances  
 3 under which an exception to the first-to-file rule might be made include bad faith, anticipatory  
 4 suit, and forum shopping. *Alltrade, Inc. v. Uniweld Products, Inc.*, 946 F.2d 622, 628 (9th Cir.  
 5 1991). But even in those instances, most courts hold that the first court must decide whether or  
 6 not the exceptions apply: “The first-filed rule requires the first court to decide whether the first-  
 7 filed rule should apply, or whether a narrow exception to the rule that only applies in  
 8 ‘compelling circumstances’ favors transfer of the first-filed case to the second court for  
 9 consolidation.” *Lockheed Martin Corp. v. L-3 Comm. Corp.*, 370 F. Supp. 2d 1349, 1350-51  
 10 (N.D. Ga. 2005), quoting *Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Haydu*, 675 F.2d 1169,  
 11 1174 (11th Cir. 1982); *see also Cadle Co. v. Whataburger of Alice, Inc.*, 174 F.3d 599, 606 (5th  
 12 Cir. 1999) (“[O]nce the [second-filed] court found that the issues might substantially overlap, the  
 13 proper course of action was for the court to transfer the case to the [first-filed] court to determine  
 14 which case should, in the interests of sound judicial administration and judicial economy,  
 15 proceed.”). Accordingly, Screentone respectfully requests that this Court stay this consolidated  
 16 action or transfer it to the Eastern District of Texas for resolution.

17            **C. In the alternative to a stay or transfer, the Court may dismiss this case with**  
 18            **prejudice.**

19        It is well within this Court’s discretion to simply dismiss the present action by application  
 20 of the first-to-file rule. *See, e.g., Pacesetter Sys., Inc. v. Medtronic, Inc.*, 678 F.2d 93, 97 (9th  
 21 Cir. 1982) (affirming district court’s decision to dismiss the second-filed action). To that end, the  
 22 Ninth Circuit Court of Appeals had articulated three prerequisites for application of the first-to-  
 23 file rule: (1) chronology of the two actions; (2) similarity of the parties; and (3) similarity of the  
 24 issues. *See Alltrade*, 946 F.2d at 625, 946 F.2d at 625; *see also Am. Guar. & Liab. Ins. Co. v.*  
 25 *United States Fid. & Guar. Co.*, 2006 U.S. Dist. LEXIS 88627, \*3-4 (W.D. Wash. 2006). Here,  
 26 all three prerequisites are satisfied: (1) the Texas Action was filed on August 8, 2007, whereas  
 27 this action was filed October 1, 2007; (2) the Texas Action named each of the five Canon  
 28 Entities (the Plaintiffs herein) as defendants in the Texas Action, and those same entities are the  
 29 plaintiffs in this action; and (3) both actions focus on the ’809 patent, to wit, Screentone initiated  
 30 the Texas Action claiming infringement of the ’809 patent, and the Plaintiffs here seek a

1 declaration of invalidity, non-infringement, and unenforceability of the '809 patent. In any  
 2 event, the rule applies even if the actions are not identical. *Save Power Ltd.*, 121 F.3d at 950  
 3 (“Regardless of whether or not the suits here are identical, if they overlap on the substantive  
 4 issues, the cases would be required to be consolidated in ... the jurisdiction first seized of the  
 5 issues.”).

6 As indicated above, the Texas Defendants believe they can circumvent the first-filed rule  
 7 by adding additional parties. They argue that the additional parties are “indispensable” to the  
 8 litigation. In reality, the parties have been added to create the illusion that the actions are  
 9 somehow different. Federal courts have rejected such efforts. *See, e.g., Save Power Ltd.*, 121  
 10 F.3d at 951 (“Complete identity of parties is not required for dismissal or transfer of a case filed  
 11 subsequently to a substantially related action.”).

12 The Texas Defendants’ “indispensable party” position is founded on their assertion that  
 13 Screentone lacks the right to sue for past damages, presumably going back six years as permitted  
 14 under 35 U.S.C. § 286. In their dismissal motions, filed in Texas, they cite *Arachnid, Inc. v.*  
 15 *Merit Indus., Inc.* for the proposition that patent assignments generally do not convey a right to  
 16 collect pre-assignment damages. 939 F.2d 1574, 1579 n. 7 (Fed. Cir. 1991). Rather, rights to  
 17 such damages must be expressly assigned.

18 The Texas Defendants’ argument is misplaced, however, for the simple reason that  
 19 Screentone held valid legal title to the patent-in-suit at the time it filed the Texas Action and,  
 20 thus, had standing to assert infringement. The extent to which Screentone can collect *pre-*  
 21 assignment infringement damages is merely a red herring. Such goes to the issue of how far  
 22 back Screentone may collect infringement damages, and not to whether Screentone had the right  
 23 to bring suit.

24 The Texas Complaint does not state the extent to which Screentone seeks past damages.  
 25 Rather, it simply states that “[Screentone] is the owner of the ‘809 patent with the exclusive right  
 26 to enforce the ‘809 patent against infringers and collect damages for all relevant times, including  
 27 the right to prosecute this action.”<sup>6</sup> Nowhere does the Texas Complaint allege that Screentone  
 28 seeks damages accruing prior to taking ownership. The “relevant” time for Screentone to collect  
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30 <sup>6</sup> Nelson Decl., at Exh. 1 (Texas Complaint) at ¶ 12.



1 past damages is from June 18, 2007 (the date it acquired the '809 patent)<sup>7</sup> forward.

2 Quoting *Paradise Creations, Inc. v. UV Sales, Inc.*, 315 F.3d 1304, 1309 (Fed. Cir.  
3 2003), the Texas Defendants argue in their dismissal motions that “if the original plaintiff lacked  
4 standing, the suit must be dismissed, and the jurisdictional defect cannot be cured by the addition  
5 of a party with standing.” The case is inapposite for the simple reason that Screentone had  
6 standing at the time it filed its Texas lawsuit by virtue of its exclusive ownership of the '809  
7 patent. Standing “depends upon the state of things at the time ... the action [is] brought.” *Id.* at  
8 1306. Though true that a plaintiff cannot gain standing retroactively, *Id.* at 1310, Screentone did  
9 not need to gain standing to maintain the Texas Action. Screentone became the complete, legal  
10 owner of the '809 patent on June 18, 2007, and filed its Texas Action on August 8, 2007. There  
11 is no ownership defect; thus, there is no jurisdictional defect.

12 Nevertheless, Screentone sought leave from the Texas court to amend its Texas  
13 Complaint and to add APAC and Snyppe as parties (two of the four Defendants here). APAC and  
14 Snyppe were not, and are not, indispensable parties, because Screentone has every right to pursue  
15 its own damages in the Texas Action, at least back to June 18, 2007. But to insure maximum  
16 recovery for past damages, and out of an abundance of caution, Screentone sought leave to add  
17 APAC and Snyppe.

## 18 19 **V. Conclusion**

20 As the federal courts have long emphasized, “the plaintiff's choice of forum should rarely  
21 be disturbed.” *Gulf Oil Corp. v. Gilbert*, 330 U.S. 501, 508 (1947). And for the reasons  
22 described above, Screentone's choice of a Texas forum should be left alone. Respectfully, this  
23 Court should either stay this action pending resolution of various issues by the Eastern District of  
24 Texas or proceed to transfer the case to the Eastern District of Texas, the first-filed court. In the  
25 alternative, Defendants request that the Court dismiss the instant action with prejudice — an  
26 option well within the Court's discretion.

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30 <sup>7</sup> Nelson Decl., at Exh. 2 (Assignment to Screentone).

1 RESPECTFULLY SUBMITTED this 26<sup>th</sup> day of November, 2007.

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